ernments also. The chief concern of the Government is therefore to adjust the expenditure in such a manner that it is well within our resources. All other considerations must necessarily have to be subordinated in the interests of a balanced budget. With an income of Rs. 87 lakhs the expenditure has to be so adjusted that there might be a reasonable surplus left at the end of every year. For a small State with limited resources, unless a fund is built up with the realised surplus of every year, it will be difficult to find the necessary funds for undertaking capital expenditure which cannot be financed from the current revenues of a year. Though it is the usual practice for modern Governments to finance capital expenditure with borrowed money, this policy has to be applied very cautiously in the case of a small State. We have already raised public loans to the extent of Rs. 105 lakhs and by the time the Fourth Stage Works of the Harbour are completed we would have borrowed another Rs. 30 lakhs from the Government of India. The public debt of the State would therefore be Rs. 135 lakhs within the next two years. No doubt all this amount has been invested in reproductive capital enterprise. In fact about Rs. 75 lakhs of this investment is in the nature of a loan to the Harbour Authority which will have to be repaid to us in course of time. Though our borrowing policy has been extremely sound and cautious, nevertheless we cannot depend upon borrowed capital for undertaking all the various capital enterprises which will have to be undertaken for developing the resources of the State. It would therefore be a wise policy to put by a certain amount every year for meeting our obligations under capital expenditure. It would be difficult to indicate an exact figure for this purpose; but I may say with confidence that at least Rs. 3 lakhs every year would have to be saved from the current revenues for this purpose. The budget of every year can be considered to be satisfactory only if it results in a realised surplus of not less than Rs. 3 lakhs.

Analysis of expenditure.

4. With this picture of our general financial position let us now examine the disbursement side of our budget. I observed that it would be safe to assume that the net income of the State will be about Rs. 87 lakhs for the present. Some additional revenue may no doubt be expected with the development of the harbour and with the payment of interest charges by the Harbour Authority on the remaining 150 acres of the Reclamation Ground. It would not be safe to expect additional income from these sources for the next two or three years. With an income

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therefore of Rs. 87 lakhs and making allowance for a realised surplus of Rs. 3 lakhs, we have Rs. 84 lakhs for meeting all our annual requirements. When you examine the various major heads of expenditure you will find that there are a good many items of expenditure which are beyond our control and which may be considered to be inevitable. Under this category come the major heads of Palace, Subsidy, Contribution to the Government of India on account of the match duty, Religious and Charitable Expenditure, Pension and Gratuity, Sinking Fund and Interest Charges. These items make a total of about Rs. 20·40 lakhs. It will thus be seen that the expenditure which can be said to be under control is Rs. 63·60 lakhs. When this expenditure is further analysed it will be found that unfortunately the greater part of it is again beyond our control for the present at any rate. Out of the possible expenditure of Rs. 63·60 lakhs the salary bill of the State alone comes to Rs. 35·50 lakhs. The total amount therefore that may be said to be under real control is Rs. 28·10 lakhs. You will thus observe that though our income is taken as Rs. 87 lakhs the total amount of expenditure that can be said to be under effective control for the present reduces itself to very nearly less than one-third and stands at Rs. 28·10 lakhs.

5. The criticism has often been heard that the administration of the State is top-heavy and that considerable reduction should be effected in the salary bill of the State especially of the officers at the top. The conclusions of the Retrenchment Committee on this aspect of public expenditure is rather significant. In the concluding paragraph of their report, they refer to "the impression which seems to be current in the public mind that the administration of the State is top-heavy on account of the high salary given to Heads of Departments". The Committee however do not say whether they endorse this view or not. They draw attention to the significant fact that while the salary of the Heads of Departments was 7·9 per cent of the total expenditure under 'Establishment' in 1107, it has been reduced to 7·7 per cent in 1111 in spite of the introduction of new Departments like Public Health, Ayurveda and Income-tax. The Committee however expressed a decided opinion that it will not be fair to reduce the salary of the subordinate officers and the ministerial and menial staff and that they could not come to any definite or unanimous conclusion about the reduction of salary of Heads of Departments. An examination of the salary bill of the State in some greater detail will disclose the limitations of retrenchment even if the salary of the Heads of Depart-

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ments is to be reduced. It was pointed out that the total salary bill of the State is Rs. 35·50 lakhs. This includes the grants to aided schools which are really intended for the salaries of the teachers. I have attempted to classify the total salary bill into three categories:—(a) the total salary bill of those drawing a pay of Rs. 500 and above, (b) the total salary of all officers drawing a pay of Rs. 150 and above but less than Rs. 500 and (c) the total salary of all the staff drawing a pay up to Rs. 150. The salary bill of the first category, namely officers drawing Rs. 500 and above inclusive of the Diwan and Judges of the Chief Court, is Rs. 1·90 lakhs, per year. The pay bill of the officers of the second category, i. e., officers drawing above Rs. 150 and below Rs. 500, is Rs. 3·40 lakhs. The total pay bill of the rest of the staff drawing below Rs. 150 (inclusive of grants) is Rs. 30·10 lakhs. These figures will give you an idea of the maximum possibility of retrenchment by way of reduction of salaries. The Retrenchment Committee expressed a decided opinion that it will not be fair to reduce the salary of the subordinate officers and the ministerial and menial staff. Though the Committee have not defined these words in accurate terms it may, I think, be taken for granted that the third category, namely those drawing Rs. 150 and below may be said to comprise the classification that the Committee had in view. If this interpretation of the Committee's observation is correct, there cannot be any reduction in the salary bill of the subordinate officers and other staff who draw altogether Rs. 30·10 lakhs per year. The field of retrenchment in salary therefore is narrowed down very considerably. Even assuming that there is a cut of 20 per cent in the salaries of the highest grade, namely officers drawing Rs. 500 and above, there would only be a saving of Rs. 38,000 per year. It is a matter for consideration at the hands both of the Government and of this House whether it would be a wise policy to reduce the present level of the pay of your Heads of Departments to the extent of 20 per cent and whether in the light of the small savings that will result such a policy would be a wise one. Whatever might be the view taken regarding reduction in the general level of salaries, Government cannot agree to reduce the salaries of officers who are already holding permanent posts. I am sure that this decision will be endorsed by every right-thinking public man in the State. When once the security of service is jeopardised you will cut at the root of efficiency and contentment which are the bases of the civil services all over the world. A cut in salary of a certain percentage is no doubt justifiable under conditions of emergency. But no one can contend that an emergency of

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such a nature exists as to warrant a cut. Any policy of reducing the scale of salaries can only be made applicable to future entrants and the economy that will result thereby cannot be realised for many years to come.

Harbour.

6. It was exactly one year ago on the 1st of August 1936 that the Port of Cochin was declared a major port. The various works in connection with the Fourth Stage have been started and are making good progress. There is not much to be seen at present of these works round about the harbour area because most of the works are below water. The Fourth Stage dredging is nearly completed and many of the cylinders for the road and rail-bridge have been sunk to a level of about 80 feet below low water and satisfactorily tested. The railway embankment across Venduruthi is already made for several hundreds of yards, and a great quantity of railway materials, iron cylinders and steel girders have been received from the makers. The contract for the six large cranes required for the harbour has been given and the cranes will be of the new types at the Ports of Vizagapatam and Marmagoa. Much of the copper steel sheet piling required for the deep wharf has been delivered. The new pile driving plant has been erected and the work of driving the copper steel sheet piles will be started very soon. The Governments concerned have sanctioned the building of the Administration Block on the Willingdon Island, and the work has been started. It is hoped to finish this work early next year. In this connection I have to mention one matter which resulted in considerable saving in connection with the Fourth Stage Works. Though the declaration as a major port was made only in August last, the Harbour Authorities, in anticipation of a rise in prices, wisely invited tenders for steel and iron works and with the consent of the Governments concerned placed orders for the dredging plant and certain other materials as early as May 1936. It should be observed that on account of the rearmament programme of the Governments in Europe there has been a rapid rise in the price of all iron and steel materials, and in fact it has become difficult even to ensure prompt delivery at these high prices. The action of the Harbour Authorities in wisely placing the orders in May 1936 avoided what otherwise would have meant a large excess on the Fourth Stage estimates amounting to more than Rs. 12 lakhs. We are under obligation to the Administrative Officer Mr. Bristow for the wise step that he took in this direction. We have every reason to be satisfied

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